

AGENDA
Finance Commission of Texas
AUDIT COMMITTEE MEETING

Friday, June 21, 2013
8:00 a.m.

Finance Commission Building
William F. Aldridge Hearing Room, 2601 N. Lamar Blvd.
Austin, Texas 78705

Public comment on any agenda item or issue under the jurisdiction of the Finance Commission agencies is allowed unless the comment is in reference to a rule proposal for which the public comment period has ended. However, upon majority vote of the Commission, public comment may be allowed related to final rule adoption.

- A. Review and Approval of Minutes of the April 19, 2013, Audit Committee Meeting.
- B. Audit Committee Review of Agencies' Activities.
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Extend the Internal Auditor Contract for Garza/Gonzalez & Associates through Fiscal Year 2014.
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking's Audit of the Prepaid Funeral Contract Area as Prepared and Presented by Garza/Gonzalez and Associates.
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Financial Education Endowment Fund Grant Program Administration and Advisory Policy and Grant Advisory Committee members.

NOTE: The Audit Committee may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

Meeting Accessibility: Under the Americans with Disabilities Act, the Finance Commission will accommodate special needs. Those requesting auxiliary aids or services should notify Tammy King Wooten, Department of Savings and Mortgage Lending, 2601 North Lamar Boulevard, Austin, Texas 78705, (512) 936-6222, as far in advance of the meeting as possible.

MINUTES OF THE
Finance Commission Audit Committee Meeting
Friday, April 19, 2013

The Audit Committee of the Finance Commission of Texas met Friday, April 19, 2013, in the Finance Commission Building, William F. Aldridge Hearing Room, 2601 North Lamar Boulevard, Austin, Texas.

Members in attendance:

Cindy Lyons, Audit Committee Chair
Lori McCool, Audit Committee Member

Members absent:

Victor Leal, Finance Commission Member (excused)

Others in attendance:

Doug Foster, Executive Director to the Finance Commission and Commissioner, Texas Department of Savings and Mortgage Lending (SML)
Charles Cooper, Commissioner, Department of Banking (DOB)
Leslie Pettijohn, Commissioner, Office of Consumer Credit Commissioner (OCCC)
Stephanie Newberg, Deputy Commissioner, DOB
Antonia Antov, Director of Administration and Finance, SML
Christina Cuellar, Manager of Accounting, OCCC

Audit Committee Chair Cindy Lyons announced a quorum with two Committee Members (Ms. Lyons and Ms. McCool) present. She called the meeting to order at 8:02 a.m.

Review and Approval of Minutes of the February 15, 2013, Audit Committee Meeting

Lori McCool made a motion to approve the minutes of the February 15, 2013, Audit Committee meeting. Chair Lyons seconded and the minutes were adopted.

Audit Committee Review of Agencies' Activities:

Office of Consumer Credit Commissioner

Commissioner Pettijohn provided an overview of the Outstanding Audit Findings and noted that the findings from the business licensing audit recommendations had been fully implemented. She highlighted the two new audit findings regarding the integrated automated fingerprinting system from the Department of Justice. The Commissioner also commented on the Texas Workforce Commission on-site audit scheduled for May 7, 2013.

Texas Department of Banking

Commissioner Cooper provided an overview of the Outstanding Audit Findings noting the examination report finding from the State Auditor's Office had been substantially implemented. He continued with a discussion regarding the average number of days late commercial bank examinations were in the first two quarters.

Texas Department of Savings and Mortgage Lending

Commissioner Foster provided an overview of the Outstanding Audit Findings and summarized the recent State Office of Risk Management audit. All audit items are completed except for the national business continuity planning test that will be held in June. The Commissioner also commented on the Texas Workforce Commission on-site audit scheduled for May 21, 2013.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' February 28, 2013, Investment Officer Reports.

Office of Consumer Credit Commissioner

Christina Cuellar provided an overview of the Agency's Investment Officer Report while highlighting the Texas Financial Education Endowment fund.

Commissioner Pettijohn commented on the Texas Financial Education Endowment fund's investment on April 1, 2013, into the endowment portfolio at the Texas Treasury Safekeeping Trust.

Texas Department of Banking

Commissioner Cooper provided an overview of the Insurance-Funded Prepaid Funeral Guaranty Fund and the Trust Funded Prepaid Funeral Guaranty Fund quarterly reports. He continued with an update on seized prepaid funeral funds. The Commissioner mentioned that Deputy Commissioner Newberg and Mr. Saucillo completed the required biennial training under the Texas Public Funds Investment Act.

Texas Department of Savings and Mortgage Lending

Commissioner Foster provided an overview of the Investment Officer Report detailing the Agency's certificates of deposit and other funding activity. The Commissioner mentioned that Ms. Antov and Mr. O'Shields completed the required biennial training under the Texas Public Funds Investment Act.

There was discussion regarding the biennial training requirement for investment officers. The training is done through the University of North Texas Center for Public Management.

Ms. McCool made a motion to recommend that the Finance Commission accept the Agencies' February 28, 2013, Investment Officer Reports. Chair Lyons seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Second Quarter Financial Statements.

Office of Consumer Credit Commissioner

Ms. Cuellar provided an overview of the Agency's Second Quarter Financial Statements. She detailed the variances while explaining the Agency's revenues and expenditures, noting the Agency's assessments for refund anticipation facilitators were below budget due to the decrease in registrations. This decline is anticipated to continue over the next couple of years.

Texas Department of Banking

Ms. Newberg provided an overview of the Agency's Second Quarter Financial Statements, highlighting the total revenue and budgeted expenditures. She introduced two new employees Sami Chadli, Director of Administrative Services and Paula Urban, Chief Accountant.

There was discussion among members regarding the continuation for each agency to include accounts payable information in their reports. Ms. Newberg and the commissioners addressed the questions.

Texas Department of Savings and Mortgage Lending

Director Antov provided an overview of the Agency's Second Quarter Financial Statements. She highlighted total revenues and expenditures, licensing fees, penalties, and also discussed the Agency's current travel budget.

Ms. McCool made a motion to recommend that the Finance Commission accept the agencies' Second Quarter Financial Statements. Chair Lyons seconded and the motion was adopted.

Discussion of and Status Report on the Texas Financial Education Endowment Fund.

Commissioner Pettijohn provided an overview of recent activity pertaining to the Texas Financial Education Endowment Fund. She highlighted the administrative and grant oversight portion of the program and commented on the alternatives for the administration of the program, including the possibility of preparing a Request for Proposal for outside services for an experienced grant manager. There was also discussion regarding the alternative of hiring of a limited term employment position for a grant coordinator.

There being no further business, Committee Chair Cindy Lyons adjourned the meeting of the Audit Committee of the Finance Commission on April 19, 2013, at 8:27 a.m.

Cindy Lyons, Chair of the Audit Committee
Finance Commission of Texas

Doug Foster, Executive Director of the
Finance Commission of Texas

Tammy King Wooten, Executive Assistant
Finance Commission of Texas

Texas Department of Savings and Mortgage Lending
Outstanding Audit Issues Report as of May 31, 2013

Auditor	State Office of Risk Management	Audit Report Date
Audit Area	Risk Management	12/21/2012
Recommendation	Status Update	
Continuity Plan - Testing	Scheduled. The Department will participate in a cyber attack simulation for the financial sector Quantum Dawn 2 on June 28, 2013.	

Auditor	Texas Workforce Commission	Audit Report Date
Audit Area	Human Resources	N/A
Recommendation	Status Update	
N/A	Pending. On-site visit completed on May 21, 2013. Report pending.	

Auditor	Garza/Gonzales	Audit Report Date
Audit Area	Thrift Supervision	N/A
Recommendation	Status Update	
N/A	Scheduled. On-site visit scheduled for June 10-15, 2013.	

Office of Consumer Credit Commissioner
Outstanding Audit Findings Report as of 06/01/2013

Auditor	Garza / Gonzalez & Associates	Audit Report Date
Audit Area	Business Licensing	Aug-11
Finding	Status Update	
Amend each TAC, relating to fees, to include the wording "not to exceed".	In Progress. The agency, for better clarification, will amend each of the rules relating to fees to include the wording "not to exceed". These amendments will be done during the regular rule review process of each regulated area. The motor vehicle sales finance and property tax lenders are scheduled for rule review in 2012. The pawnshops and regulated lenders are not scheduled until 2014 for rule review; however, where feasible the agency will amend these rules earlier.	
Auditor	Garza / Gonzalez & Associates	Audit Report Date
Audit Area	Business Licensing	Aug-11
Finding	Status Update	
Compare the application "Action Form" to the applicable TAC and revise, as considered necessary, to ensure any needed license application requirements are listed on the form.	Fully Implemented.	
Auditor	U.S. Dept. of Justice FBI	Audit Report Date
Audit Area	Integrated Automated Fingerprint ID System Audit	Apr-13
Finding	Status Update	
Obtain Authorization to pull criminal history for Credit Access Business Licensee	In progress. No changes to be made at this time. The agency has statutory authority under section 14.151 Texas Finance Code to obtain criminal history, but the FBI does not recognize that section as authoritative and desires that Ch. 393 be added to the provisions found in Gov't Code section 411.095. The omnibus short term lending reform bill, contains the desired amendment. Unfortunately, the reform bill did not pass legislature.	
Auditor	U.S. Dept. of Justice FBI	Audit Report Date
Audit Area	Integrated Automated Fingerprint ID System Audit	Apr-13
Finding	Status Update	
Amend form on website to provide information for licenses to obtain FBI record.	Fully Implemented	

Texas Department of Banking
Outstanding Audit Findings Report as of June 2013

Auditor	State Auditor's Office (SAO)	Audit Report Date
Audit Area	Bank Examinations	June 2009
Finding	Status Update	
Improve timeliness of examination report processing	<p>Partially Implemented – For the fiscal year ending August 2012 and the first three quarters of fiscal year 2013, 70% and 75%, respectively, of the examination reports were mailed within policy guidelines. However, when joint examinations conducted with the federal regulators are excluded, the percentage mailed within policy guidelines for the three quarters of fiscal year 2013 increases to 84%. The average number of days late for all commercial examinations was 14 in the first three quarters for fiscal year 2013, compared to 18 days for fiscal year 2012.</p>	
Conduct bank examinations in a timely manner	<p>Partially Implemented – For the fiscal year ending August 2012 and the first three quarters of fiscal year 2013, 48% and 58%, respectively, of the examinations were conducted within policy guidelines. The average days late to begin an examination in the first three quarters of fiscal year 2013 were 37 days, compared to 34 days for fiscal year 2012. Obstacles to fully address this finding include: a level of problem banks that, although reduced, is still above historical norms; a shortfall in the number of commissioned examiners compared to the agency's staffing plan; and the resources allocated to effectively train newly hired examiners.</p>	

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TEXAS DEPARTMENT OF BANKING
Austin, Texas

INTERNAL AUDIT REPORT

on

Prepaid Funeral Contracts

Fiscal Year 2013



Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

TEXAS DEPARTMENT OF BANKING
Austin, Texas

Internal Audit Report
on
Prepaid Funeral Contracts
Fiscal Year 2013

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
Finance/Audit Committee Members
Texas Department of Banking
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Prepaid Funeral Contracts (PFC) Area of the Texas Department of Banking (DOB) and its compliance with the Texas Finance Code, the Texas Administrative Code, and DOB's established policies and procedures, as applicable to the PFC Area, for the six months ended February 28, 2013. The results of our tests disclosed that such controls were adequate and no instances of noncompliance were noted. However, the report that accompanies this letter includes an observation made regarding the timeliness in the performance of examinations. This report also provides a summary of the PFC Area, summarizes our audit scope and objective; and, the procedures performed to achieve the objective of our audit.

*Garza/Gonzalez
& Associates*

May 9, 2013

TEXAS DEPARTMENT OF BANKING
Prepaid Funeral Contracts
Internal Audit Report

INTRODUCTION

The Texas Department of Banking (DOB) operates under the oversight of the Texas Finance Commission, and is an agency of the State of Texas. DOB performs functions designed to maintain a financial regulatory system for Texas that promotes a consistent banking environment, and provides the public with convenient, safe, competitive banking and other stable financial services.

DOB operates pursuant to the authority of various provisions of the Texas Finance Code, the Texas Trust Company Act, the Texas Public Information Act, Texas Government Code, Chapter 552, and the Texas Administrative Code. DOB regulates state banks, foreign bank branches, agencies, and representative offices, trust companies, prepaid funeral benefit contract sellers, perpetual care cemeteries, money service businesses, private child support enforcement agencies, and check verification entities.

The major functions of DOB are to:

- Charter, regulate, and examine all state banks, foreign bank branches, agencies, representative offices, and trust companies;
- Charter, regulate, and examine trust departments of commercial banks and trust companies;
- License, regulate, and examine sellers of prepaid funeral contracts;
- License, regulate, and examine perpetual care cemeteries;
- License, regulate, and examine money services businesses;
- Register and investigate complaints of private child support enforcement agencies; and
- Register check verification entities.

DOB was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, DOB is not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting the agency's spending authority or limits. DOB's entire operating funds are generated from fees assessed to the businesses it supervises and are used to fund both direct and indirect costs. General revenue funds are not used to support DOB's operations.

2013 Internal Audit Plan

Following are the internal audits and other functions to be performed, as identified in DOB's approved 2013 Internal Audit Plan:

- Corporate Activities Division (CAD)
- Prepaid Funeral Contracts (PFC)
- Follow up of Prior Year Internal Audits
- Other Tasks as may be assigned by the Finance Commission

This report contains the results of our audit of the PFC Area. The reports for the remaining internal audit area and other functions to be performed will be issued upon completion.

TEXAS DEPARTMENT OF BANKING

Prepaid Funeral Contracts

Internal Audit Report

INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of the audit area's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

TEXAS DEPARTMENT OF BANKING

Prepaid Funeral Contracts

Internal Audit Report

EXECUTIVE SUMMARY

Background

The Special Audits Division (Division) of the Texas Department of Banking (DOB) is comprised of the following areas: (1) Prepaid Funeral Contracts (PFC), (2) Perpetual Care Cemeteries (PCC), and (3) Money Services Businesses (MSB). However, each area is a separate auditable area and this report provides the results of the internal audit of the PFC area.

The Division is managed by the Division Director (Director), who reports to one of two Deputy Commissioners. The PFC area is comprised of a Review Examiner, 2 Administrative Assistants, and 7 Financial Examiners.

The PFC area is responsible for the issuance of permits to sellers of prepaid funeral contracts with adherence to Subchapter A of §154 of the Texas Finance Code (TFC) and Chapter 25 of the Texas Administrative Code (TAC). In addition to issuing permits, the PFC area is also responsible for performing examinations to assess a PFC permit holder's compliance with PFC statutory requirements as outlined in §154 of the TFC and Chapter 25 of the TAC.

An individual/sole proprietor, partnership, association, or corporation may apply with DOB for a permit to sell or continue to sell *trust-funded* or *insurance-funded* prepaid funeral benefit contracts. A prepaid funeral benefit contract provides the public an opportunity to arrange and pay for funerals in advance of need.

Issuance of PFC Permits

Types of Permits:

Trust Funded vs. Insurance Funded

A seller of trust-funded contracts guarantees the contract by depositing the funds collected from the purchaser in a DOB approved depository within Texas. Insurance-funded contracts are funded with a policy of insurance.

Restricted vs. Unrestricted Permits

An *unrestricted* permit allows the permit holder to sell or continue to sell prepaid funeral benefit contracts.

A *restricted* permit prevents the permit holder from selling prepaid funeral benefit contracts. A restricted permit is issued when the permit holder no longer wishes to sell prepaid funeral benefit contracts but wants to maintain their current contracts, or the Division has determined, through financial analysis, that the permit holder is not financially capable of selling additional prepaid funeral benefit contracts.

Computer System/Database

The Division utilizes the Prepaid Funeral and Cemeteries System (PFACS) to perform established protocols, policies, and procedures in an effective and efficient manner. All significant and relative information pertaining to PFC permits are entered, updated, and maintained in PFACS and authorized personnel can easily navigate and access information needed.

TEXAS DEPARTMENT OF BANKING

Prepaid Funeral Contracts

Internal Audit Report

Application Process

In accordance with §154.102 of the TFC, to obtain a permit to sell prepaid funeral benefit contracts, an applicant must:

- 1) Be –
 - A funeral provider,
 - Insurance company; or,
 - An insurance holding company;
- 2) File an application for a permit with DOB; and,
- 3) Pay the application fee.

PFC permit applications are available to applicants on DOB's website, as is a checklist that can be used by applicants to ensure that necessary documents are submitted to the Division for consideration in obtaining a permit in accordance with §154.102 and §154.103 of the TFC. Some of the data and documents required to be submitted, along with the application, include biographical data, financial statements, investment plans, articles of incorporation, etc.

Applications can only be submitted by the applicant through mail. Upon receipt of an application by the Division, it is provided to an Administrative Assistant for initial review, which includes conducting a background check; application fee payment verification; and, verification that required documents were submitted. The Administrative Assistant utilizes the same checklist that is made available to the applicant to verify that all the required documents have been submitted. If the application is deemed incomplete or contains deficiencies, a letter is sent to the applicant, within 10 days of receipt of the application, requesting the missing documents. Once all documents are received, the application is sent to the Review Examiner.

The Review Examiner performs a second review of the application, which involves a financial analysis of the financial statements provided by the applicant. The application is then submitted to the Director for his review and approval. Upon the Director's approval, the application is then provided to the Deputy Commission for final review and approval.

Once the Deputy Commissioner's approval is attained, required information is entered into PFACS and a permit and approval letter are generated, and sent to the new permit holder.

The following summarizes the number of applications processed by the Division for the 6 months ended February 28, 2013:

<u>Application Status</u>	<u>Number of Applications</u>
Approved	2
Denied	2
Pending (in process of review)	3
Received (have not been reviewed)	3

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Application Fee

TAC §25.23 authorizes DOB to assess a \$500 application fee and any additional fees for extraordinary costs incurred by DOB. Adhering to this rule, the Division does not proceed in processing an application until the application fee is collected.

The Division collected \$2,000 in application fees for the 6 months ended February 28, 2013.

Renewal Process

Per TFC §154.104, permits are valid for only one year and must, therefore, be renewed annually.

DOB requires that permit holders submit a renewal application every year by June 1st either online, via the DOB website, or by mail. A checklist of required items to be submitted as part of the renewal process is available on DOB's website. Among these items are the assumed name certificate, certificate of account status, and financial statements.

Similar to new applications, the renewal applications undergo a series of reviews. These reviews are documented on a checklist, which must be dated, and initialed by all reviewers. The checklist provides for evidence of completion and DOB's compliance with applicable laws and regulations.

The Administrative Assistants receive the renewal applications and conduct the first review, which includes completion of a checklist to denote verification that the renewal fee was paid, and that all required items were submitted. Upon completion of the first review, the application is sent to the Review Examiner for his review.

As part of his review, the Review Examiner performs a financial analysis and reviews the supporting documentation to ensure the permit holder remains compliant with applicable laws and meets the requirements stated in §154.102 & §154.103 of the TFC. The Review Examiner completes his portion of the checklist and documents his recommendation on whether to issue a restricted or unrestricted permit. The renewal application and documentation is then sent to the Director for final review and approval.

The Director reviews the renewal application and documentation for completeness and to ensure it supports the Review Examiner's recommendation. Upon approval by the Director, the permit holder's information is updated in PFACS, and a renewed permit and approval letter is generated and sent to the permit holder.

As of August 31, 2012, 392 permits were renewed for fiscal year 2013.

Renewal Fee

TAC §25.23 authorizes DOB to assess a renewal fee, which is based on the permit holder's number of outstanding contracts. Renewal fees are required to be paid by March 1st of each year, and are automatically collected from the permit holder's account through the Automated Clearing House (ACH) system.

The Division collected \$458 in renewal fees for the 6 months ended February 28, 2013.

TEXAS DEPARTMENT OF BANKING
Prepaid Funeral Contracts
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Annual Reports

In accordance with §154.052 of the TFC, the Division requires all permit holders to submit annual reports every year by March 1st. When the reports are received, the Administrative Assistants will enter the financial information into the PFACS system. These reports are reviewed and tested as part of the examination process.

Examinations of PFC Permit Holders

Examination Frequency

TFC §154.053 requires examinations of each permit holder to be conducted at least once every 18-month period. A permit holder could be subject to more examinations within this time period if a rating of less than satisfactory was received in the previous examination, they are subject to a formal enforcement proceeding; or, by order of the Commissioner.

The Division utilizes PFACS to identify those permit holders due for an examination. The Director is responsible for scheduling and assigning examinations to each examiner. To assist the Director in scheduling examinations, a weekly itinerary is received from each examiner which outlines the status and anticipated time of completion for ongoing examinations.

Examination Process

On site examinations are performed to determine the permit holder's compliance with applicable chapters of the TFC and TAC. The assigned examiner is responsible for conducting the examination and preparing the report of examination (ROE).

Prior to the examination, the examiner sends the permit holder a packet, which includes a list of requested items needed to conduct the examination, along with a questionnaire.

The Division utilizes tailored examination work programs to ensure examination procedures include testing of significant requirements of the TFC and TAC.

Upon completion of the onsite examination, the examiner prepares a draft of the ROE that reflects an assigned rating, which may change after review by the Director; and, discusses any findings and violations identified during the examination with the permit holder. All draft ROEs and respective workpapers are sent to the Division for review and approval. The Director signs all ROEs regardless of assigned rating but has authority to solely sign ROEs assigned a rating of "1", "2", or "3".

An ROE with a rating of "3", "4", or "5" and respective workpapers are required to be reviewed by the Deputy Commissioner, who also signs the ROE.

Upon completion of an examination, all workpapers are imaged and stored in PFACS.

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Rating Assignment

A rating is assigned to a permit holder after completion of an examination using the Uniform Risk Ratings outlined in §25.14 of the TAC, as follows:

- Rating "1" - Strong Overall Condition
- Rating "2" - Satisfactory Overall Condition
- Rating "3" - Marginal Overall Condition
- Rating "4" - Poor Overall Condition
- Rating "5" - Critically Deficient Overall Condition

The following summarizes the number of examinations, by rating, conducted during the 6 months ended February 28, 2013:

Rating	Number of Examination
1	59
2	44
3	16
4	4
5	-
Total	123

Examination Assessment

In accordance with §25.24 of the TAC, DOB is authorized to assess an examination fee to cover the cost of administering the examination, which is computed using the Annual Assessment Schedule and is based on a permit holder's number of outstanding contracts.

Using the Annual Assessment Schedule and number of outstanding contracts, a maximum allowable annual assessment is computed by the Division and split into 2 billings. The first billing is typically 65% – 70% of the total assessment and the second is only billed if deemed necessary by the Director.

The Division collected \$535,907 in examination assessment fees for the 6 months ended February 28, 2013.

Seizures of Permits

In accordance with §154.412 of the TFC, the Commissioner is authorized to issue an order to seize accounts in which prepaid funeral funds are held; and furthermore, can cancel a permit. This can only be executed if credible evidence is attained which supports the notion that the permit holder is not compliant with applicable statutory requirements. Procedures performed by the Division include obtaining an order signed by the Commissioner; immediately notifying the bank to change the signature card; obtaining the most recent bank statements; gathering information of all contract holders for full disclosure; publishing a press release in a local newspaper; verification of balances; issuance of a bid letter to local funeral providers for succession; and, eventually notifying the contract purchasers of the successor.

The Division cancelled 4 permits during the 6 months ended February 28, 2013.

TEXAS DEPARTMENT OF BANKING

Prepaid Funeral Contracts

Internal Audit Report

Audit Scope/Objective

The scope of our audit was the Prepaid Funeral Contracts (PFC) area. The objective of our audit was to gain an understanding of the PFC area and determine if permits were issued and examinations performed in accordance with applicable sections of the TFC and TAC; and, DOB's established policies and procedures.

The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed and obtained an understanding of the laws and regulations provided in the TFC and the TAC, as applicable to the PFC area.
2. Obtained and reviewed the PFC area's written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls.
3. Obtained a list of applications processed during the period from September 1, 2012 to February 28, 2013 and haphazardly selected 3 applications to test for the following attributes:
 - a. Obtained and reviewed the application, application checklist, and required documentation to ensure all the required documentation was submitted.
 - b. Ensured the application fee was collected.
 - c. Obtained and reviewed the Incomplete Letters to ensure the applicant was properly notified within the required 10 day period that their application was incomplete.
 - d. Reviewed evidence of the Deputy Commissioner's approval prior to permit issuance and ensured the application was approved within 45 days after application was deemed complete.
4. Obtained a list of renewal applications processed during the period from September 1, 2011 to August 31, 2012 (for fiscal year 2013) and haphazardly selected 10 applications to test for the following attributes:
 - a. Obtained and reviewed the renewal applications, renewal checklist and required documentation to ensure all the required documentation was submitted.
 - b. Ensured the renewal fee was computed in accordance with the TAC and properly collected.
 - c. Ensured the renewal application was properly reviewed and approved prior to the issuance of the renewed permit.

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Prepaid Funeral Contracts

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5. Obtained a list of examinations conducted during the period from September 1, 2012 to February 28, 2013 and haphazardly selected 10 examinations to test for the following attributes:
 - a. Ensured compliance with the examination frequency requirements.
 - b. Ensured completion of the examination procedures and required work programs.
 - c. Ensured all the required documentation was obtained and reviewed.
 - d. Ensured the proper approval and signature was obtained on the ROE.
 - e. Ensured the ROE and work papers were properly reviewed.
 - f. Ensured the assessment fee was computed in accordance with the TAC and properly collected.
6. Obtained a list of permit seizures that were processed during the period from September 1, 2012 to February 28, 2013 and haphazardly selected 1 to test for the following attributes:
 - a. Obtained and reviewed all the relevant supporting documentation and work papers pertaining to this closure.
 - b. Obtained and reviewed the order signed by the Commissioner to execute the seizure.
 - c. Ensured the bank was contacted immediately requesting a change in the signature card and to attain the most recent bank statements.
 - d. Ensured that information for each contract holder was immediately gathered and documented in an excel spreadsheet.
 - e. Obtained and reviewed the published press release in the local newspaper.
 - f. Ensured contract balances were verified with consumers within 30 days of the Agreed Order.
 - g. Obtained and reviewed the bid letter to local funeral providers and ensured it was sent within 60 days of the Agreed Order.
 - h. Ensured purchasers of contracts were notified of the successor funeral home.
7. Reviewed examination procedures to ensure inclusion of significant compliance requirement of the TFC and TAC.
8. Obtained and reviewed the examination manual developed by the Division to ensure compliance with §154.053(e) of the Texas Finance Code.

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List of Audits Completed by High Level Audit Objectives

Report No.	Report Date	Name of Report	High Level Audit Objectives
1	5/9/2013	Prepaid Funeral Contracts	<ul style="list-style-type: none">To determine whether PFC permits were issued and examinations performed in accordance with statutory requirements and established policies and procedures.

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Key Audit Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/9/2013	Prepaid Funeral Contracts	<p><u>Timeliness of PFC Examinations:</u></p> <p>Observation: Per §154.053(b) of the Texas Finance Code examinations of each PFC permit holder are required to be conducted at least once every 18-month period.</p> <p>Our review of 10 examinations disclosed 9 instances where the examination was conducted 2 to 5 months after the 18-month period.</p> <p>Management's Response</p> <p>Acknowledge finding. The delay in performing examinations timely is mainly attributable to staff resignations and training. It should be noted that all nine past due examinations were previously rated either strong or satisfactory. Even with the current staffing level, permit holders rated less-than-satisfactory are timely examined. In June 2013, the Division became fully staffed and anticipates meeting the examination frequency requirements in the second quarter of FY 2014.</p>		To ensure compliance with the Texas Finance Code

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**Texas Workforce Commission
Civil Rights Division**

May 30, 2013

Ms. Leslie L. Pettijohn, Commissioner
Office of Consumer Credit Commissioner
2601 N. Lamar Blvd.,
Austin TX 78705-4207

Dear Ms. Pettijohn:

Re: Texas Workforce Commission Civil Rights Division Review of Personnel Policies and
Procedural Systems

OFFICE OF CONSUMER
CREDIT COMMISSIONER
2002 JUN -5 P 1:39

The Texas Workforce Commission Civil Rights Division (the Division) has completed the review of the personnel policies and procedural systems of the Office of Consumer Credit Commission under Texas Labor Code §§ 21.451 – 21.456. Based on that review and the Office of Consumer Credit Commission implementation of the recommendations of the Division, I hereby certify that the personnel policies and procedural systems of the Office of Consumer Credit Commission comply with Texas Labor Code Chapter 21 in all respects.

Although this review is now concluded, your agency is scheduled for its next review during Fiscal Year 2019. The Division may advance or delay this schedule up to one year to take into account agencies being abolished or combined, or new agencies being created. Until your next review, we are available to you for technical assistance under Texas Labor Code § 21.003(a) (5). In addition, I have enclosed our current fee schedule for EEO training. Please contact us at any time to discuss your EEO training needs.

Thank you for the opportunity to work with your staff to complete this review. If you have questions, please call Dennis R. Swinney, at (512) 463-4800.

Sincerely,

A handwritten signature in cursive script, appearing to read "L. Keig".

Lowell A. Keig
Division Director

Texas Financial Education Endowment (TFEE)

Grant Program Administration and Oversight ~~Advisory Policy~~ – Amended DRAFT

Subject to Finance Commission Approval

I. Purpose

The purpose of this document is to establish a guide for administration and oversight of the TFEE grant program. This policy lays out the broad parameters for executing the administrative and management components of the TFEE.

II. Roles and Responsibilities

This document is applicable to the Office of Consumer Credit Commissioner (OCCC), grant ~~program manager~~ coordinator, Grant Oversight ~~Advisory~~ Committee (~~GOC~~ members, GAC), Finance Commission (FC), and individuals responsible for grant-making and funding decisions.

- The OCCC administrative staff is responsible for identifying the program objectives and goals, and researching grant administration and oversight practices. ~~OCCC will also create an initial draft of the program policy and make recommendations for continued development. Staff will determine~~ Staff determines program implementation requirements, and ~~provide~~ provides recommendations to the Grant Advisory Committee and Finance Commission based on ~~programmatic~~ program needs. ~~The OCCC staff has assessed that a grant program manager is recommended to assist with program development, training, and implementation. Grant Program Manager. The acts as~~ Grant Program Manager (GPM) will act as a program officer. The program officer may be an independent contractor or consultant working Coordinator "GC". The grant coordinator works under the direction and supervision of the OCCC and ~~GOC~~. ~~The GPM's compensation is drawn from the endowment. The GPM will make~~ Commissioner, GAC, and Finance Committee. The GC makes presentations to the ~~GOC~~ GAC and the Finance Commission regarding grant activity and ~~acts~~ as the liaison between grantees and the ~~GOC~~ GAC. The Uniform Grant Management Standards (UGMS) will provide the parameters by which the ~~grant program manager~~ GC can work to ensure best practices and state compliance.
- ~~Grant Oversight~~ Advisory Committee. ~~The GOC is~~ GAC serves in an advisory role to the liaison between the program manager GC and the Finance Commission. ~~The GOC~~ GAC evaluates and monitors grant proposals, and oversees the development of the grant program.

The committee will be comprised of: seven individuals, including: a financial education expert or consultant, educational consultant, one person from each department within the designated Finance Commission, designated committee member, auditor/accountant, grant administrator, consumer advocate, and an industry representative, and a legal representative. Furthermore, the GOC will determine allowable expenditures and define the grant award structure. Specifically, the funds are to be reimbursed, or awarded upfront to grantees. The GOC will meet. The GAC meets regularly, with a minimum of five times meetings during a grant-funding cycle.

The GAC will further develop policies and procedures in order to ensure successful, accurate, timely and effective implementation of this grant program. The GAC is to advise and assist in the establishment of the following throughout the first grant cycle:

1. Methodology to track, evaluate and monitor progress at each phase of the grant cycle
 2. Development of official grant documentation, policies and procedures
 3. Development of systems for coordinating and tracking grant applications, awards, and major project management decisions associated with awarded grants
 4. Consultation and technical assistance to grant coordinator
 5. Process development for resolution of disputes with grantees
 6. Implementation of awarded grant projects according to terms and conditions of program policy
 7. Establish operations and maintain system to ensure objectives and goals are being met
 8. Development and refinement of GAC process and procedures
- Finance Commission. The Finance Commission will select organizations to award funds based on recommendations from the GOCGAC. The Finance Commission may also request presentations from the organizations selected for final review for the grant awards, make recommendations to the GOCGAC regarding program improvement, and issue awards and funds.

III. Award Guidelines

The TFEE Grant Program awards funds to non-profit (501 C-3) organizations that promote, provide, or support financial education or financial literacy initiatives. Successful applicants of the grants must demonstrate evidence-based programming that increases financial capacity and promotes asset building. This is a multi-year grant program, thus grant awards will be made in two-year cycles. Grant However, grant allocations will be funded annually, based on performance and reporting compliance.

IV. Grant Funding Procedures

The ~~GOC will make recommendations~~ GAC recommends to the Finance Commission regarding specific award allocations, compliance issues, and amendments. Based on recommendations from the ~~GOC~~ GAC, the designated representatives (Audit Committee) of the Finance Commission will determine fund allocations and amendments.

V. Financial Accountability

OCCC ~~will be~~ is responsible for:

- Collecting assessment fees and applying them to the endowment and maintaining reconciliation of funds
- Maintaining financial records of revenue and expenditures
- Serving as investment officer and maintaining compliance with the investment policy in accordance with state of Texas regulations
- ~~Disburse~~ Disbursing and track ~~tracking~~ funds

VI. Legal Consultation

The OCCC ~~will consult~~ consults with internal legal counsel unless appropriate "outside" ~~representative~~ guidance or representation is needed.

VII. Reporting

The OCCC Commissioner, ~~GOC~~ GAC, and Finance Committee, ~~— (or (Audit Committee))~~ may request an internal or external audit to examine compliance and fiduciary responsibility when deemed necessary.

- Grantees report financial and program progress quarterly (i.e. number of people served)
- Grantees submit a performance and outcomes report at the end of each fiscal year
- Longitudinal follow-up to assess consumer behavior and program impact six months to one year upon the program completion
- Internal and external findings are publicly available and are published online (TFEE webpage, OCCC or FC website)

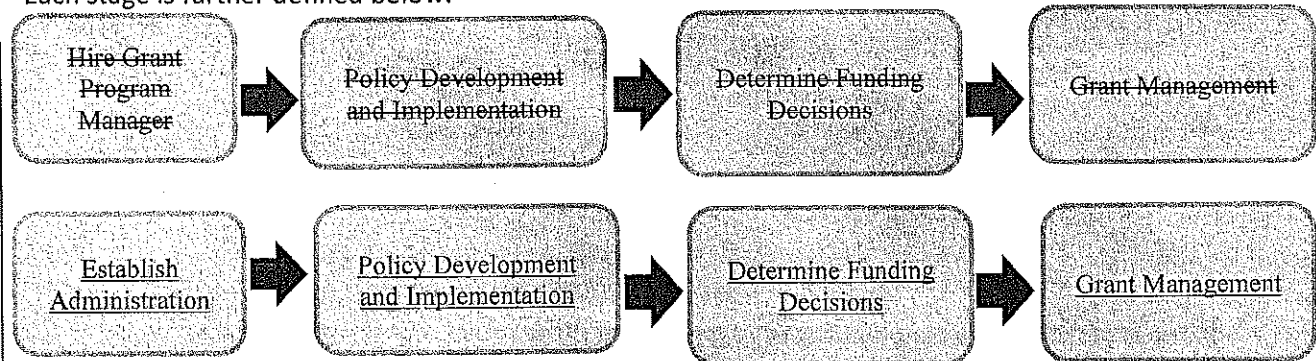
VIII. Funding Limitations

TFEE funds are used to support the goals and strategies for the TFEE set by the Finance Commission. The focus of the endowment for the first funding cycle will be on school and youth based financial literacy ~~and~~ capability programs, as well as financial coaching and consumer counseling initiatives.

- Specific prohibited and permissible uses of grant funds will be defined in the grant agreement.
- Any interest gained from grant funds must be reinvested back into the program being funded.
- Grant funds will be disbursed on an annual basis contingent pursuant to the grant agreement and will be based upon satisfactory compliance and performance outcomes.

Process Overview

The ~~This~~ process overview section is intended to demonstrate how the first cycle of the TFEE two-year grant will work. The grant announcement will be made at the beginning of September Fiscal Year 2014. Each stage is further defined below.



Stage 1 – Grant Program Manager (February – March) ~~Establish Administration (January – May)~~

- ~~Request for Proposals: The OCCC representative will draft a request for proposals for a seasoned grant administrator/manager who has expertise in asset building, knowledge of financial education resources, and initiatives. The grant manager should also have experience managing grants with annual awards in the amount of \$500,000 or more. The grant manager will be contracted for 2.5 years to develop the TFEE grant and facilitate transition when the contract ends.~~
- ~~The OCCC Commissioner will select a grant manager.~~
- ~~Statement of Work (SOW) will be provided to the selected program manager which will further detail job functions and responsibility.~~
- OCCC staff representative identified as Grant Coordinator
- Create following documents for review and revisions by GAC: application, grantee agreements, applications, evaluation and tracking tool.
- Continue research and program development
- Identify and invite qualified professionals to serve on GAC

Stage 2 – Policy Development and Implementation (~~March to~~ June - August)

- Coordinate GAC member selection and appointment
- Conduct initial GAC meeting
- Develop GAC Rules or Guidelines
- Develop funding limitations and application guidelines
- ~~The grant program manager will review~~ coordinator reviews the current process and procedures with GAC and ~~make~~ makes amendments based on experience, need, and best practices.
- ~~The grant manager will implement~~ coordinator implements adopted tools and ~~to~~ ensure the capability for tracking and monitoring responsibilities.

- ~~Prepare~~ All administrative, oversight and grantee documents such as: applications, performance measurement measures and evaluation tools for internal and external systems of control, create grantee applications, and grant agreements. Have staff, software, evaluation tools, agreements, policies and procedures developed, approved, and in place to make their time for grant announcement on September 1, 2013.
- ~~Grant program manager coordinates GOC selection process.~~
- Create a web page on the OCCC site with all program information and materials. Establish an email address for application submission and correspondence

Stage 3- Determine Funding Decisions (September - November)

- Grant program manager announcement in September 2013
- Grant coordinator receives and prepares proposal analysis, applications for first phase of screening; confirms tax status, and makes recommendations for internal review by GOC GAC
- GOC GAC will review TFEE budget, program history, determine risk assessment, and define grant structure (i.e. number of awards and amounts funded, reimbursement or upfront distributions, and reporting requirements)
- Once Refine GAC Rules or Guidelines
- By December, grantees are selected, designated FC member will sign grant award letters and; agreements will be signed defining the intended grant results, payment schedules, and reporting requirements.
- Grant agreements must be signed by grantee before funded activities can commence.

Stage 4 – Manage Grant and Measure Progress (On-Going)

- In collaboration with grantee GAC, the grant manager coordinator will develop a strategy for ongoing management and to ensure timely report submission.
- Ongoing funding will be dependent upon program success and compliance.
- Grantee is responsible for tracking and reporting program progress, assessing and communicating program success, challenges, and impact.
- The grant manager Grant coordinator will provide technical assistance to grantees and offer opportunities for regular consultation.
- Grantee will submit a final report summarizing impact, results, and conduct consumer follow-up surveys (six months to one year after the program completion).
- Program evaluation will address issues of non-compliance, identify risks, and comment on specific deliverables.
- Grant manager coordinator manages conflict honestly and directly with grantee.

Recommendations

- The following chart is a proposed summary. GAC will offer recommendations to rectify issues of funding parameters during the first two years of the grant program non-compliance.

2014 TFEE Grant Distribution	\$236,610
Grant Manager Compensation	\$35,000 (per year) \$70,000 (2 year allocation)
Award Amount	\$236,610
Number of Estimated Awards	5
Average Award Size	\$40,322
Average Size of Awards per year	\$20,161 per year (2 nd year funding based on program success and compliance)
Grant Term	Two years (grant term begins October of Fiscal Year '14)

Needs Assessment:

The next step for this grant program is to solicit an independent contractor or consultant by way of a Request for Proposals (RFP). The OCCC representative is prepared to draft an RFP and/or SOW. A grant program manager should be selected no later than the end of March to stay within the time allotted to prepare for the grant announcements to be available to the public by September 1, 2014.

Further development of policies and procedures are required in order to ensure successful, accurate, timely and effective implementation of this grant program. It is strongly suggested that an experienced grant program manager be contracted to carry out the following functions for at least the first 2.5 years:

- Train staff, track, evaluate and monitor progress at each phase of the grant cycle
- Develop official grant policies and procedures
- Develop systems for coordinating and tracking grant applications, awards, and major project management decisions associated with awarded grants
- Offer grant training and technical assistance to staff and grantees
- Provide reports and make presentations to Finance Commission and GOC
- Assist with resolution of disputes with grantees

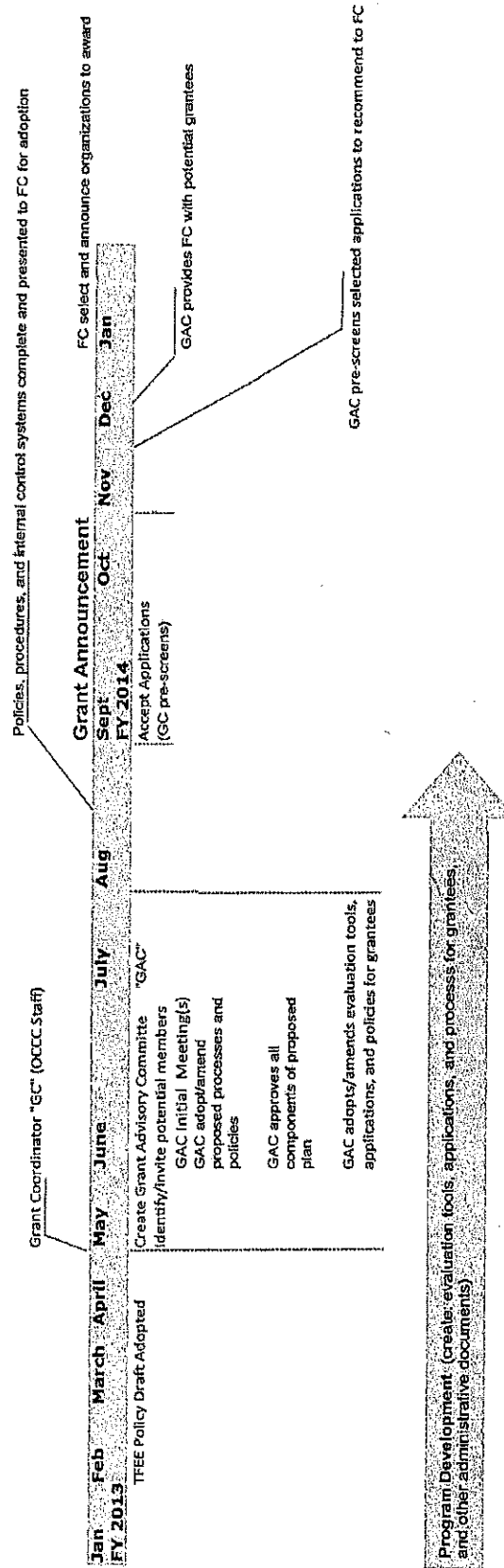
~~7.1 Implement awarded grant projects according to terms and conditions of program policy~~

~~8.1 Establish operations and maintain system to ensure objectives and goals are being met~~

- Determine and coordinate GOC appointment process

- After the first cycle of grant awards, an Conduct evaluation should occur to determine whether to continue to use contracted services, or if internal staff is adequately trained to manage the length of GAC member terms and structure of the program committee.

FY 2013 - 2014 Projected Timeline: Texas Financial Education Endowment "TFEE" Grant Program



Proposed TFEE Grant Advisory Committee

Information will be provided prior to the June 21 meeting

Consumer Advocate Representative

Financial Education Consultant

Grant Administrator/Consultant

Educational Consultant

Auditor/Accountant

Industry Representative

Finance Commission Representative